



United States Department of State

*Office of Foreign Missions
Washington, D.C. 20520*

Diplomatic Tax Relief Credit Card Initiative Proposal

The Department of State's Office of Foreign Missions (OFM) seeks to institute a credit card based system to manage foreign mission and personal diplomatic tax relief in the United States. Such tax relief is an obligation of the United States pursuant to the Vienna Conventions on Diplomatic and Consular Relations and other international treaties and agreements. OFM believes those credit card services and technologies currently available and/or under development for commercial purposes offer great potential for improving the provision of diplomatic tax relief to the mutual benefit of the Department of State, state and local revenue authorities, and the business and foreign mission communities.

This process is vastly different from the manner in which this privilege has been authorized and facilitated. Currently, foreign missions and their eligible members are issued an identification style card from the Department of State to enable authorization of diplomatic tax-exemption. This card explains the level of tax exemption granted to the cardholder. When making purchases, the cardholder presents the card to the vendor, who then is burdened with adjudicating the authorization of the exemption. Vendors commonly feel conflicted in granting this authorization because they fear it will not be an acceptable action by their taxing authorities or are potentially tempted by the relative ease such a process presents for fraudulently reporting numerous tax-exempt sales authorized on the basis of diplomatic privilege.

OFM envisions the use of a credit card-based system for facilitating the government's diplomatic tax relief obligations. This credit card will serve as the only means a foreign mission or member would have in obtaining diplomatic tax relief. Therefore, OFM estimates that such credit cards would be used frequently and likely will have a higher average use-rate in comparison to those issued to average consumers.

Currently, there are roughly 15,000 diplomatic tax-exemption cards circulating throughout the United States. The National Capital Planning Commission estimates the annual consumer spending of foreign missions and their members in the Washington Metropolitan Region (DC, MD, VA) calculates to \$290 million.¹ However,

¹ National Capital Planning Commission. [The Economic and Fiscal Impact of Foreign Missions on the Nation's Capital](#). Washington: NCPC, 2002.

this figure does not include the annual spending of foreign missions in other states that have high concentrations of foreign missions or experience high levels of tourism from foreign missions and their members, such as Arizona, California, Florida, Hawaii, Nevada, New Mexico, New York, Texas, and Washington.

Background of the Diplomatic Tax-Exemption Process:

The Office of Foreign Missions (OFM) manages reciprocity issues between the government of the United States and foreign missions and their members established in the United States. This activity is required by the Foreign Missions Act of 1982 (22 USC 4301-4316). Further, the treaty obligations of the United States as a signatory to the Vienna Convention on Diplomatic Relations and as a signatory to the Vienna Convention on Consular Relations require that the US government set standards for the conduct of foreign missions in the United States.

The central principal of the Foreign Missions Act is the concept of imposing reciprocity in regards to the provision of diplomatic privileges. Therefore, OFM is only authorizes foreign missions for diplomatic tax relief privileges to the extent that each counterpart foreign government provides tax relief to the U.S. diplomatic mission in that country. For example, based on reciprocity OFM may require that a specific foreign mission's purchases be worth at least fifty dollars before tax exemption can be authorized or permitted by the vendor. Other common limitations include restricting tax exemption on purchases from certain business sectors, such as at hotels or restaurants.

As matter of government policy, the U. S. government asserts that diplomacy should not serve as a basis for Treasury-to-Treasury transfers. This principle is woven throughout the fabric of the Vienna Convention on Diplomatic Relations and the Vienna Convention on Consular Relations and thus the provision of this privilege is an obligation of the U.S. Government.

How Will A Diplomatic Tax-Exempt Credit Card Work?:

OFM hopes to work collectively with the state and local revenue authorities to develop a program based on the following model to facilitate diplomatic tax relief in a more accountable and efficient manner.

Proposed Model:

- OFM will choose one credit card company to provide this service.
- OFM will approve eligible diplomatic applicants for a tax-exempt credit card. The level of exemption authorized for the applicant will be communicated to the credit card company by OFM.
- A foreign mission or eligible member will make a purchase using their tax-exempt credit card.

- The vendor will treat this purchase as a normal transaction and will assess any applicable taxes in the final purchase price.
- According to existing procedures, the vendor will request payment from the credit card company, or its representative, for the total price of the transaction, including any taxes.
- The credit card company will collect detailed information concerning the transaction from the vendor. These details will be in accordance with the collective requirements of the state and local taxing authorities concerning tax refunds; these requirements will include transaction-specific information such as the physical address/location of the purchase, the vendor's tax identification number, and the amount and type of tax collected.
- As designated by OFM reciprocity standards, the credit card company will only request payment from the cardholder for the base sales prices of purchases that are applicable for tax relief. **This will action facilitates the obligation of the United States to providing diplomatic tax relief.** For example, if a cardholder makes a purchase that has a base price of \$10 and \$1 is imposed on the transaction as sales tax, the credit card company will only request \$10 in payment from the cardholder. Charges representing tax on purchases that do not meet a cardholder's specific criteria for tax relief must be included on their invoice or bill. For example, if a cardholder is only eligible for tax exemption on purchases greater than \$100, a cardholder's purchase equaling \$11 (representing a \$10 base price and \$1 in sales tax) would require full payment from the cardholder.
- As the representative or agent of the foreign mission, international organization, or eligible individual, the credit card company will prepare and submit documentation to the transaction specific taxing authority requesting a refund of the applicable tax on the basis of diplomatic or consular status. This procedure will be developed collectively with the participating tax authorities. OFM hopes to establish one procedure for requesting diplomatic tax relief that the credit card company can use nationwide.
- Once this request is received and approved, the taxing authority will refund the tax amount directly to the credit card company. This refund represents a payment by the cardholder and will be credited as such by the credit card company.

What Would the Adoption of this Initiative Require State Tax Authorities to Do?:

As with the current provision of diplomatic tax exemption, state tax authorities are critical to the facilitation of this treaty obligation. However, the proposed reinvention of this process will require a more direct commitment and cooperation on part of the state tax authorities.

Tax authorities must agree to a uniform system for administering this system.

This commitment to uniformity includes:

- Uniform purchase transaction data requirements necessary for processing diplomatic tax refund requests.
- Uniform procedures used by the credit card company for submitting refund such requests.
- Uniform procedures used by the tax authorities for payment of refund requests to the credit card company.

How Will This Initiative Benefit Taxing Authorities?

The Department of State believes that there are structural flaws in the manner in which diplomatic tax relief is currently managed in the United States. These flaws allow for state and local tax authorities, and by connections their taxpayers, to lose public revenue due to the limited available controls. However, these flaws have been accepted in the past because there was no better alternative than the identification card style system for facilitating this obligation nationwide. OFM sees the adoption of the diplomatic tax-exempt credit card initiative benefiting state and local revenue authorities in two broad ways.

1. Vendors No Longer Control Authorization Process – *States and localities gain full control over the provision of diplomatic tax relief.*

- Vendors will no longer be burdened with the risks associated with authorizing diplomatic tax-exemption.
- Vendors will no longer be able to fraudulently use diplomatic tax relief as a scheme to avoid remitting tax. Therefore, with fewer exemptions to consider audits will be easier to conduct.
- This initiative will also allow OFM to better control the provision of reciprocity in regards to what level of exemption is authorized. OFM will also have the ability to cancel the use of any credit card immediately, thus stopping any unauthorized exemptions. Whereas, currently it is difficult to control the continued use of identification style cards after an individual's eligibility for diplomatic tax relief has expired, especially in the event of the sudden termination of a foreign missions member's assignment.

2. Public Revenue Increases - *Fewer opportunities for tax relief, equals more tax revenue for states and localities.*

- Not every vendor accepts credit cards. Whereas, using the current tax-exemption card, exemption can be authorized by any type of vendor on potentially any type of purchase.

- This is a credit card and will be the **only** means the cardholder will have to receive tax relief on the basis of diplomatic status. If the cardholder lacks enough credit on their tax-exempt credit card to make a purchase the credit card can't be used.
- A cardholder may feel more comfortable or convenient to pay for small purchases, such as coffee, newspapers, etc., with cash. Currently, a tax-exemption card can provide tax relief on such purchases.
- This initiative will allow states and localities the new ability to actually collect taxes associated with diplomatic purchases. Therefore, prior to the reimbursement, the state or locality will be able to earn interest on the revenue or use it for cash-flow assistance.

How Can the MTC Help OFM With This Initiative?:

OFM believes the Multistate Tax Commission (MTC) can provide valuable support for the adoption of this initiative by state taxing authorities. OFM knows that this system will require possible state legislation changes and will create new administrative issues for tax authorities. However, the streamlining and reinvention of this system is in the best benefit of the taxing authorities, the Department of State, and ultimately the taxpayer.

OFM seeks the MTC Executive Committee's review of this proposal. If the Committee decides this initiative has merit, the Department understands the Executive Committee will decide in what way the MTC can assist the Department of State in the adoption and implementation of this program. OFM is appreciative of any assistance that can be provided. OFM envisions its greatest assistance needs are in the following areas:

- Promoting this concept with state tax authorities.
- Promoting and possibly drafting enabling legislation.
- Developing collective data requirements with state tax authorities to facilitate transaction specific reimbursements.
- Developing a collective and uniform system for the submission and payment of diplomatic tax refund requests to and from state taxing authorities.

The Department of State's Office of Foreign Missions thanks the Executive Committee of the Multistate Tax Commission for consideration of this proposal. If questions, comments, or concerns arise regarding this or any other diplomatic tax relief issue, please contact Cliff Seagroves, by telephone at (202) 895-3541 or by email at seagrovescc@state.gov.